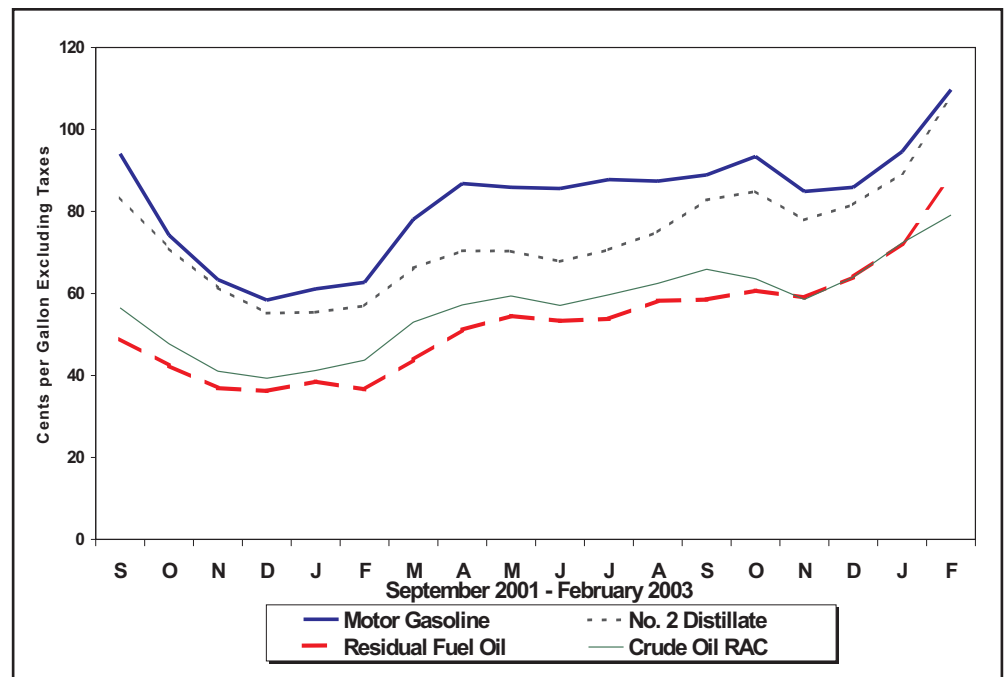


Highlights

Driven by solid demand, lean inventories in key markets, and mounting fears of a U.S.-led military invasion of Iraq, international crude oil prices increased in February. Rising prices were also supported by the ongoing labor strike in Venezuela, which continued to restrict the country's crude oil output. While estimates vary, Venezuelan oil production rose in February, and was gauged to be around half of pre-strike levels. Prior to the strike, Venezuela was one of the world's top five crude oil exporters, and one of the four largest sources of crude oil imports into the United States. Although the strike continued to influence prices in international oil markets, market watchers began to place greater emphasis on increasing political tensions involving Iraq. U.S. President George W. Bush and other administration officials began to step up efforts to demonstrate Iraq's noncompliance to the United Nations Security Council's resolution 1441 (the resolution, which went into effect during the second week of November, called for Iraq to submit unconditionally to weapons inspections) and make the case for a military confrontation with Iraq. These events fortified the effect of the "war premium" on rising oil prices. This premium is regarded as consisting of costs above the actual fundamental market value of crude oil, based on concern that military conflict in the Middle East would interrupt shipments from the region. Those worries were compounded by the disruption in Venezuelan oil exports. More specifically, if supplies from the Middle East were restricted by war, surplus world oil production capacity would be pushed to the limit. In addition to these political issues, market fundamentals in the United States also provided a considerable degree of support to crude oil price trends in world markets.

Pressure from a variety of sources caused U.S. crude oil and finished product prices to climb to some of the highest levels seen in some time during February. The rising threat of war with Iraq, frigid temperatures coupled with severe winter storms, refinery outages, and shrinking product inventories all served to send prices to levels not seen since the latter half of 2000. Although February demand for gasoline and distillate products show only small increases, the increase in demand for distillate fuels comes on the heels of a 10.8 percent rise in January. Much of that demand can be attributed to continued cold temperatures and inclement weather affecting the country overall, and specifically in the Northeast region, which has the highest rate of heating oil use in the world. One of the worst snow storms in years hit the region during the President's Day weekend, dropping 2 feet or more of snow in many cities from the Mid-Atlantic region and northward. Amid the customary refinery turnaround, both stocks of

Figure HL1. Crude Oil and Petroleum Product Wholesale Prices



Sources: Energy Information Administration. Crude oil refiner acquisition cost: Form EIA-14, "Refiners' Monthly Cost Report"; petroleum product prices: Form EIA-782A, "Refiners'/Gas Plant Operators' Monthly Petroleum Product Sales Report."

Table HL1. U.S. Refiner Prices and Volumes of Petroleum Products

(Prices: Cents per Gallon Excluding Taxes, Volumes: Million Gallons per Day)

Products	Sales to End Users						Sales for Resale					
	February 2003		January 2003		February 2002		February 2003		January 2003		February 2002	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	122.0	60.7	106.0	60.4	71.8	64.0	109.7	289.7	94.6	290.2	62.7	293.8
Conventional	119.3	34.3	103.5	33.8	69.0	35.4	106.7	188.7	91.8	187.3	59.9	190.1
Regular	116.9	26.9	100.7	26.0	65.9	26.6	105.3	158.2	90.3	154.5	58.4	154.7
Midgrade	125.3	4.2	109.2	4.4	74.5	4.6	111.4	10.8	96.1	11.0	63.3	11.4
Premium	132.5	3.2	117.3	3.4	82.3	4.2	115.2	19.6	100.6	21.9	68.2	24.0
Oxygenated	123.9	3.4	106.1	3.6	75.9	4.1	112.9	10.9	93.2	11.4	67.4	10.7
Regular	121.3	2.7	102.5	2.7	72.7	3.1	111.7	8.6	91.6	8.8	65.9	8.3
Midgrade	129.7	0.5	113.9	0.5	82.3	0.6	113.4	1.3	94.9	1.4	68.0	1.2
Premium	140.2	0.3	124.1	0.3	92.0	0.4	123.0	1.0	103.4	1.2	77.8	1.1
Reformulated	125.7	23.0	109.7	23.1	75.1	24.4	115.8	90.2	100.6	91.4	67.7	93.0
Regular	122.0	16.9	105.6	16.6	71.2	17.3	113.0	69.1	97.7	68.6	64.9	69.0
Midgrade	132.9	3.0	116.9	3.0	81.1	3.5	122.1	6.4	106.9	6.5	73.5	7.9
Premium	138.9	3.1	123.8	3.4	87.9	3.7	125.8	14.6	110.0	16.3	76.8	16.1
Aviation Gasoline	145.8	0.1	139.7	0.1	118.5	0.1	129.9	0.4	124.9	0.2	98.5	0.5
Kerosene-Type Jet Fuel	101.6	45.8	91.5	43.1	58.4	45.9	101.9	13.2	89.5	13.3	57.4	13.5
Propane (Consumer Grade)	69.6	1.9	57.4	2.9	35.1	2.9	72.7	44.7	60.5	49.2	36.6	38.5
Kerosene	136.8	0.3	121.0	0.3	97.7	0.2	122.4	3.6	97.8	4.7	60.9	2.9
No. 1 Distillate	109.3	0.4	98.2	0.4	69.4	0.4	117.3	2.5	98.1	3.1	63.0	2.3
No. 2 Distillate	110.5	23.3	93.9	22.6	61.6	24.0	107.9	130.6	89.3	134.8	57.0	123.8
No. 2 Fuel Oil	113.2	4.0	96.3	4.5	62.3	3.3	107.8	33.1	89.5	38.1	57.7	31.0
No. 2 Diesel Fuel	109.9	19.3	93.3	18.0	61.5	20.7	108.0	97.5	89.2	96.7	56.8	92.8
Low Sulfur	112.1	12.9	95.0	12.4	63.4	14.1	108.3	85.2	89.5	84.6	57.0	82.1
High Sulfur	105.6	6.4	89.3	5.6	57.5	6.6	105.3	12.3	87.3	12.1	54.8	10.7
No. 4 Fuel^a	W	W	W	W	54.5	0.5	88.5	0.2	77.0	0.4	54.4	0.1
Residual Fuel Oil	83.8	13.0	75.4	12.1	43.3	10.9	88.4	6.7	72.2	9.0	36.6	7.9
Sulfur Content not > 1 %	95.6	4.7	86.1	3.5	51.2	2.5	95.5	4.5	79.5	5.2	38.0	5.2
Sulfur Content > 1 %	77.0	8.2	70.9	8.6	41.0	8.4	74.0	2.2	NA	3.7	33.7	2.7

NA = Not available.

W = Withheld to avoid disclosure of individual company data.

^a Includes No. 4 fuel oil and No. 4 diesel fuel.

Notes: Motor gasoline averages and totals prior to October 1993 include leaded gasoline.

Notes: Values shown for the current month are preliminary. Values shown for previous months are revised. Data are final upon publication in the *Petroleum Marketing Annual*.

Source: Energy Information Administration Form EIA-782A, "Refiners'/Gas Plant Operators' Monthly Petroleum Product Sales Report."

crude oil and finished petroleum products fell, with some regional product inventories falling to record-setting lows. Notably, crude oil stocks in PADD II fell to the lowest level recorded by EIA since it began collecting data at the regional level, and underpinned rising crude oil prices in other regional markets. Distillate stocks plummeted another 13.4 percent in February, following the 16.5 percent decrease registered in January, leaving supply levels well below the average range for this time of year. On the West Coast, gasoline prices soared as unexpected refinery problems occurred along with scheduled maintenance at a number of facilities.

A look at month-to-month and year-ago spot market prices show the impact of those issues on price trends.

At Cushing, Oklahoma, the monthly average price for West Texas Intermediate crude oil was \$32.95 per barrel in January 2003, and \$35.83 per barrel in February, an increase of \$2.88 per barrel. Compared with the average value in February 2002, \$20.72 per barrel, the February 2003 price is 70.8 percent higher than it was last year. At New York Harbor, the average price for regular gasoline was 55.3 cents per gallon in February 2002. The average prices in January and February 2003 were 88.0 cents per gallon and 99.6 cents per gallon, respectively, a month-to-month increase of 11.6 cents per gallon. The difference between the current and year-ago price reflects an 80.0 percent rise from the February 2002 level. Finally, the monthly average prices for No. 2 heating oil shows the most dramatic changes: in January 2003 the price was 90.5 cents per gallon, compared with \$1.129 per gallon in February 2003, a difference of

22.4 cents per gallon. The difference between the February 2002 average price of 54.1 cents per gallon and the February 2003 price illustrates an even more striking change of 58.8 cents per gallon, which amounts to a greater than doubling of the price.

Additional February market and sales activity for crude oil and the principal petroleum products are summarized in the following sections.

Crude Oil

Pressured by heightened worries of war with Iraq and significant draws on finished product stocks during February, the daily spot price for West Texas Intermediate (WTI) crude oil rose to its highest level since October 1990. After opening the month at \$33.51 per barrel, the price dropped to its low of \$32.84 per barrel on February 3. The decline was prompted by news that crude oil production in Venezuela continued to improve despite the ongoing labor strike. However, the price returned to an upward mode shortly thereafter, pressured by reports showing significant drops in finished products inventories and more indications of war with Iraq. The price reached \$37.96 per barrel on February 26, its highest level since October 1990. Closing the month at \$36.76 per barrel, the price was \$3.25 higher than where it began February.

- February monthly average crude oil prices increased in all sales categories. The average domestic crude oil first purchase price underwent the largest increase, rising \$3.49 (12.3 percent), to \$31.84 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil rose \$1.33 (4.6 percent), to \$30.51 per barrel. The average landed cost of foreign crude oil climbed \$2.03 (6.7 percent), to \$32.31 per barrel.
- The average refiner acquisition cost for domestic crude oil jumped \$3.44 (11.3 percent), to \$33.91 per barrel. The average cost of imported crude oil to U.S. refiners increased \$2.43 (8.0 percent), to \$32.75 per barrel. The composite refiner acquisition cost for crude oil rose \$2.85 (9.4 percent), to \$33.23 per barrel.

Petroleum Products

Motor Gasoline

Reflecting volatile market conditions in February, the daily spot price for regular gasoline at New York Harbor rose to its highest level since September 2000. After opening at 95.6 cents per gallon, the price jumped to the month's high of \$1.044 on February 7, driven by solid demand, fears of an imminent war, and sharp price increases for other products in the complex. Easing after that, the price fell to its low of 94.1 cents per gallon on February 20. The price regained some ground after that, and closed the month at \$1.012 per gallon 5.6 cents higher than where it began February.

- February monthly average gasoline prices show dramatic increases from January levels. The average price for retail sales of motor gasoline by refiners soared 16.0 cents to \$1.220 per gallon. The average wholesale price jumped 15.1 cents to \$1.097 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets surged 15.3 cents to \$1.213 per gallon. The average wholesale price rose 14.7 cents to \$1.098 per gallon. The average dealer tank wagon (DTW) price climbed 15.0 cents to \$1.150 per gallon, while the average rack price also rose 15.0 cents to \$1.087 per gallon. The average price for bulk sales increased 11.9 cents to 97.8 cents per gallon. Reformulated gasoline (RFG) prices were 6.0 cents higher than conventional gasoline prices at retail, and 7.8 cents more at wholesale. Oxygenated gasoline prices were 4.2 cents more than conventional gasoline prices at retail, and 5.6 cents higher at wholesale.
- Motor gasoline sales by refiners dropped slightly in February. Total sales declined 200,000 gallons per day (0.1 percent), to an average of 350.4 million gallons per day. Retail sales fell 300,000 gallons per day (0.5 percent), while wholesales dropped 500,000 gallons per day (0.2 percent). Rack sales represented 66.3 percent of wholesales, while DTW and bulk sales made up 21.3 percent and 12.4 percent, respectively. Reformulated gasoline accounted for 32.3 percent of total motor gasoline sales, while oxygenated gasoline made up 4.1 percent of sales.

No. 2 Distillate

The daily spot market price for No. 2 heating oil at New York Harbor was highly volatile during February. The price was principally driven by sharp declines in stocks and a prolonged period of cold, inclement winter weather. While well-below average temperatures gripping most of the nation and affected heating fuels prices across the country, heating oil prices in the Northeast were particularly unsettled. After opening at 95.8 cents per gallon, the price dropped to its low of 94.9 cents per gallon on February 3, then shot upwards, gaining 25.7 cents during the first week of the month. The large-scale increase was caused by continuing reports of sharp declines in distillate fuel oil stocks. Throughout the remainder of the month, the price followed an unsettled path as weekly reports continued to show significant inventory drawdowns amid below-average temperatures throughout the country. On the last day of the month, the price reached its highest level since February 2000 when high winds and frozen waterways prevented deliveries in the Northeast, when the price reached \$1.223 per gallon.

- February No. 2 distillate prices show extraordinary increases from January levels in all categories of sale. The national average residential sales price for No. 2 distillate surged 17.3 cents to \$1.506 per gallon. The average wholesale price jumped 17.9 cents to \$1.082 per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets climbed 17.5 cents, while the average No. 2 diesel fuel wholesale price increased 18.4 cents. The spread between low- and high-sulfur diesel fuel prices was 2.6 cents at retail and 2.7 cents at wholesale.
- Overall, refiner sales of No. 2 distillate declined in February. Total sales dropped 3.4 million gallons (2.2 percent), to 153.9 million gallons per day. Sales of No. 2 fuel oil fell 5.5 million gallons per day (12.9 percent), while sales of No. 2 diesel fuel increased 2.1 million gallons per day (1.8 percent). Low-sulfur diesel fuel accounted for 84.0 percent of all refiner diesel fuel sales, and 63.7 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- Residual fuel oil prices increased considerably again in February. Refiner prices for low-sulfur residual fuel oil rose 9.5 cents to 95.6 cents per gallon at retail, and 16.0 cents to 95.5 cents per gallon at wholesale. The average retail price for high-sulfur residual fuel oil climbed 6.1 cents to 77.0 cents per gallon, while the wholesale price jumped 12.0 cents to 74.0 cents per gallon. Including data reported by a sample of residual fuel oil marketers, the average low-sulfur residual fuel oil price rose 9.1 cents to 94.7 cents per gallon at retail, while the wholesale price increased 15.5 cents to 91.9 cents per gallon. The retail price for high-sulfur residual fuel oil rose 5.3 cents to 76.7 cents per gallon, while the wholesale price climbed 8.1 cents to 73.0 cents per gallon.
- Refiner sales of residual fuel oil declined in most categories during February. Total sales fell 1.4 million gallons per day (6.6 percent) to 19.7 million gallons per day. Low-sulfur residual fuel sales increased 500,000 gallons (5.7 percent), while high-sulfur residual fuel oil sales dropped 1.9 million gallons (15.4 percent).

Other Products

- Prices for all other surveyed products rose in February. Refiner propane prices climbed 12.2 cents per gallon at both retail and wholesale. Including data from a sample of propane marketers, the average residential propane price increased 7.4 cents per gallon, while the average retail price increased 10.1 cents. The average wholesale propane price climbed 11.9 cents. Prices for kerosene-type jet fuel, aviation gasoline, kerosene, and No. 1 distillate increased at both retail and wholesale levels, while No. 4 distillate price rose at wholesale.
- Refiner sales of these products mostly fell in February. Sales of propane, kerosene, and No. 1 distillate decreased at both levels, while sales of aviation gasoline sales rose in both categories. Kerosene-type jet fuel increased at retail but declined at wholesale, while sales of No. 4 distillate also fell at the wholesale level.